ANDHRA PRADESH LEGISLATURE

(Ninth Legislative Assembly)

THIRTY THIRD REPORT

OF

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH, 1988 (NO. 7 of 1989) AND 31ST MARCH, 1990 (COMMERCIAL) ON ANDHRA PRADESH INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

(Presented to the Legislature on 31st March, 1994)

ANDHRA PRADESH LEGISLATURE (ASSEMBLY) SECRETARIAT

PUBLIC GARDENS, HYDERABAD - 500 486.

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

(Constituted on the 26th March, 1993)

Chairman :

1. Sri P. Narasimha Reddy

Members :

2. Sri P.V. Raghavulu
3. Sri P. Ravindra Reddy
4. Sri Thota Venkatachalam
5. Sri N. Venkataratnam Naidu
6. Sri P. Purushotham Rao
7. Smt. Eti Vijayalakshmi
8. Dr. G. Chinna Reddy
9. Sri M.K. Baig*

   Sri G. Atchuta Kumar (w.e.f. 27-12-1993)
10. Sri N.K. Ramakrishna Reddy
11. Sri N. Ramakishan Rao
12. Sri N. Sivaramakrishna Prasad
13. Sri P. Kanaka Sundara Rao
14. Sri S. Venkateswara Rao
15. Sri. Ibrahim Bin Abdullah Masquathi

Legislature Secretariat :

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2. Sri A.D. Bhaskara Reddy, Deputy Secretary
3. Sri M.H. Kesava Rao, Assistant Secretary
4. Sri J.S.R. Murthy, Section Officer.

Accountant General's Office :

1. Smt. Sabita Gopal, Accountant General (Audit)II
2. Sri B. Narayana, Deputy Accountant General
3. Sri V. Balakrishna Murty, Sr. Audit Officer
4. Sri V.V. Leeladhar, Asst. Audit Officer.

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* Appointed as Minister w.e.f. 8-9-1993.

CONTENTS

		Page No.
	Report of the Comptroller and Auditor General of India for the year 31st March, 1988	
1.	Introduction ..	7
2.	Organisational set-up ..	9
3.	Funding ..	11
4.	Corporate Plan ..	12
5.	Funds budgeting ..	13
6.	Appraisal of Project Reports ..	13
7.	Monitoring ..	15
8.	Appointment of Nominee Directors ..	15
9.	Inspection of Assisted Units ..	16
10.	Problematic units ..	17
11.	Revival of sick units ..	18
12.	Recovery performance ..	18
13.	Return on investments ..	20
14.	Performance of disciplines and units - Woven Sack Units ..	21
15.	LPG Cylinders ..	22
16.	Paper Industries ..	23
17.	Drugs and Pharmaceuticals Units ..	23
18.	Straw Board Units ..	24
19.	Sangam Fabrics, Kothur ..	26
20.	A.P. Industrial Gases Limited ..	28
21.	Golconda Abrasives ..	29
22.	Business Machine Limited ..	30
23.	General ..	31
24.	Report of the Comptroller and Auditor General of India for the year 31st March, 1990 ..	31
25.	Unfruitful investment in M/s. Vermell & Chemicals Private Limited ..	31
26.	Avoidable payment of surcharge of low power factor ..	33
27.	Summary of Recommendations ..	35

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (1993-94) having been authorised by the Committee present this Report on Andhra Pradesh Industrial Development Corporation Limited.

The Committee held two sittings to record the oral evidence.

The Committee met on 28th March 1994, considered and approved the Draft Report.

The Committee wishes to express their thanks to the Principal Secretary to Government, Industries and Commerce Department, the Managing Director and other officials of the Andhra Pradesh Industrial Development Corporation Limited for the co-operation they have extended.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant GeneraL (Audit) II, Andhra Pradesh, the Deputy Accountant General and other officers and staff of the Accountant General's Office.

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary to Legislature, the other officers and staff of Legislature Secretariat in the examination of the general working and audit paras relating to Andhra Pradesh Industrial Development Corporation Limited and in preparation of this Report.

Hyderabad,

Dated: 28-3-1994.

P. NARASIMHA REDDY,
Chairman,
Committee on Public Undertakings.

RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

9th LEGISLATIVE ASSEMBLY

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31st MARCH 1988 (No. 7 OF 1989)

ON

ANDHRA PRADESH INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

1. Introduction :

Andhra Pradesh Industrial Development Corporation Limited was incorporated in 1960 as a wholly owned Government Company mainly with a view to promoting and developing medium and large scale industries, achieving balanced dispersal of industries in various regions of the State etc., by assisting enterpreneurs, units etc., through equity participation, term loans etc.

Organisational set-up :

2.1 During the period from July 1983 to October 1987, the Board was reconstituted seven times with the duration of the Board varying from 7 to 14 months and with the strength of Directors ranging from 2 to 17. The percentage of attendance of the Directors to the total number of Directors ranged between 35 and 100. While the percentage in respect of attendance of each director to the total number of meetings ranged between 20 and 100 during the last five years up to 1987-88.

(Para 2A.3)

2.2 During oral evidence, the Vice Chairman & Managing Director of the Company (VC & MD) explained that the vacancies included the official members, such as Commissioner of Industries, Managing Director of A.P. State Financial Corporation etc., and since they were nominated by name with every change in the incumbency of such official members, nomination had to be done afresh.

2.3 The Committee also noticed that at present there are only 4 directors on the Board, consisting of Chairman, Managing Director, Executive Director and a nominee of IDBI and that there are 14 vacancies to be filled in. The Government has not explained why it could not fillin the vacancies so far. The Committee also observed that the Government did never make any attempt to nominee suitable persons who are experts

in the field of promotion/development of various types of industries in the State, with the result the Company is denied of expert opinion and technical guidance of such Directors.

2.4 The Committee fails to understand the circumstances under which a substitute cannot be nominated immediately as and when a vacancy arises. The Committee is also not satisfied with the reply of VC & MD about the non-filling of vacancies of official nominees. The Committee opines that in the initial stages of constituting the Company, the variation in the number of Board of Directors might be justified, but after about 30 years of functioning there was no meaning to have minimum of 2 members. The Committee also noticed that though the Chairman's term was over, substitute has not been nominated so far.

2.5 *The Committee recommends the following for consideration of the Company/Government:*

1. *The Company may examine alteration of the Articles of Association for increasing the minimum number of Directors to atleast 5.*

2. *The Government and other participating organisations may nominate the Directors by designation in ex-officio capacity and avoid appointing them by name, so that the availability of nominee directors is continuous.*

3. *The Government should ensure that there is no time gap between a Director's post falling vacant and nomination of a substitute thereagainst, so that the Board's existence is continuous without any break and there will be no occasion for its reconstitution. The Government should also ensure that the post of Chairman is not kept vacant for long and the appointment is made without much loss of time.*

4. *The Public Enterprises Management Board (PEMB) may immediately undertaking a review of the position of vacancies of Chairman/Directors prevailing in all the Companies/Corporations falling under its purview and suggest suitable steps to Government to enable it to take immediate action wherever there are vacancies.. PEMB may also fix up a time frame within which all the Companies would have their Boards with full strength of Directors prescribed by the respective Articles of Association.*

5. *PEMB and the concerned Administrative Department shall also induct experts in various fields, as prescribed in the Articles of Association, as Directors on the Boards, with a view to sharing the expert opinion and technical guidance of such Directors in the concerned field of activity.*

6. *The Committee is of the opinion that a close watch on the performance of various nominee Directors on the Boards is called for. PEMB*

may, therefore, prescribe suitable reports to be furnished by the nominee directors to serve as a feed back on the functioning of the Company to initiate corrective steps wherever necessary.

3. Funding

3.1 The Company's sources of funds comprise the share capital, loans, debentures, refinance from IDBI, dividends on its investments and disinvestment of shares. Audit observed that during the five years up to 1987-88, Government's contribution towards equity aggregated only Rs. 24.72 crores, which was very nominal. The State Government had released in the first three years (1985-86 to 1987-88) of the Seventh Plan period, only Rs. 13.43 crores out of Rs. 50 crores earmarked to the Company, leaving a balance of about Rs. 36.58 crores for release in the last two years of the plan period. However, as on 31st March 1988, i.e., at the end of the third year of the plan period, the total firm commitments of the Company to be met was Rs. 52.85 crores towards equity and Rs. 7.33 crores towards its margin money share under IDBI refinance schemes; even if the balance amount of Rs. 36.57 crores was released during the next two years, it would not be sufficient to meet the commitments of Rs. 60.18 crores of the Company for this period.

In view of the poor recovery of instalments of principal and interest from the units, coupled with poor return on investments and inadequate financial support from State Government as mentioned above, the Company borrowed Rs. 21.50 crores up to the end of 1987-88 from various agencies, such as Unit Trust of India, A.P. State Road Transport Corporation, A.P. Industrial Infrastructure Corporation Ltd. etc., for the accomplishment of its objectives and for its working capital requirements. Besides, the Company borrowed Rs. 2.60 crores from IDBI, Rs. 9.09 crores from its assisted units and quasi-Government organisations, apart from availing overdraft facilities from Andhra Bank. The working of the Company for the year 1986-87 resulted in loss of Rs. 0.83 crore as against net profits of Rs. 1.76 crores, Rs. 0.63 crores and Rs. 0.88 crores during 1983-84, 1984-85 and 1985-86 respectively. In spite of increase in income, the Company sustained loss during 1986-87 because of high incidence of interest on loans. The Company requested the State Government in March 1988 to convert the loan of Rs. 2.83 crores and interest threon into equity on the plea that it was a promotional organisation investing in the risk capital of units promoted by first generation entrepreneurs and technocrats and therefore, it could not afford to borrow on interest. The decision of the State Government is awaited (November 1989).

(Para 2C.6.1)

3.2 In its written statement, the Company informed that no decision

has been taken by the Government in regard to the request made for conversion of Rs. 2.62 crores borrowed from the Government into equity.

3.3 During oral evidence, the Principal Secretary informed that the Government was not releasing funds fully mainly due to funds constraints and that the commitments of the Company for 1992-93 were Rs. 4 crores.

3.4 *The Committee observed that the Company was forced to go in for borrowings from banks etc. mainly due to the meagre support from the Government. The Committee, therefore, recommends that the Government should, in future, allot and release without fail atlest the earmarked funds to the Company. The Committee also directs the Company to improve its recovery performance and also to step up its disinvestment activity, in order to raise adequate internal resources for implementation of its various schemes.*

4. Corporate Plan :

4.1 The Company has been responding to the requests of entrepreneurs without clear identification of priorities as to the type of industry, its size and location in order to ensure balanced promotion. The Board felt the need to have a corporate plan in 1987 and constituted a sub- committee in May 1987. The sub-committee was to prepare a corporate plan for the next 3 years indicating the thrust areas and size of units keeping in view the raw material available in the State and the employment potential. The sub-committee identified three areas, viz., size of unit, location policy and priority as key factors for preparing the corporate plan. The sub-committee did not submit the report. The term of sub-committee expired (October 1988) along with the Board.

(Para 2A.7.1)

4.2 In its written statement, the Company informed that the Sub-committee for the Corporate Planning exists but so far it has not met.

4.3 During oral evidence, the VC & MD informed that the sub-committee constituted in 1986-87, met three times but they could not come to a consensus.

4.4 The Committee feels that it is regrettable to understand why the Sub-Committee could not meet more than three times during the past 5 years. Further, when the members of the Sub-Committee could not come to a consensus, the Committee fails to understand as to why the Sub-Committee was not reconstituted.

4.5 *The Committee likes to have a report from the Company/Government explaining the circumstances under which the report could not be obtained from the Sub-Committee within the stipulated period.*

4.6 *The Committee further recommends that the Company may reconstitute the Sub-Committee immediately, duly fixing a target date for the submission of its report and implement the recommendations soon after the receipt of the report.*

5. Funds budgeting :

5.1 The Budget and Business Plan and Resources Forecast (BPRF) contain assessment of funds required for new schemes already sanctioned and spillover schemes, rehabilitation of sick units but excludes the units proposed to be promoted and assisted in the coming years. While the annual BPRF is put up to the Board, the annual budget for assessing and seeking funds from Government was not being put up to the Board till 1986-87.

(Para 2A.7.2)

5.2 During his oral evidence, the Prl. Secretary, Industries informed that all annual budget proposals will be placed before the Board of the Company.

5.3 *The Committee recommends that all matters submitted to the Government should have the prior approval of the Board of the Company. This will ensure the total involvement of the Board in the affairs of the Company.*

5.4 *The Committee desires to have the details of the units which have more than Rs. 20 lakhs investment as on 31st December 1993 and the amounts of dividends declared by them.*

6. Appraisal of Project Reports :

6.1 The Project Reports furnished by the prospective entrepreneurs are required to the appraised by the concerned leading financial institutions for financial and economic viability depending upon the size of the prospective unit. In the absence of any time limit prescribed by the Company, time taken for appraisal ranged from less than one month to one year.

(Para 2A.8.1)

The agenda notes containing project appraisals are required to be circulated in advance amongst Directors for their study and consideration. Some of the Directors expressed their dissatisfaction over the short time allowed to them as it did not help them to evaluate the projects properly before clearance for financial assistance in the Board Meetings. There were instances where 5 to 17 applications involving financial assistance to the tune of Rs. 3.66 crores to Rs. 10.44 crores were sanctioned in a single Board meeting. These are indicative of the fact that projects

are cleared without adequate scrutiny and appraisal of various essential aspects, including that of viability was poor.

Such perfunctory appraisal of project reports led to high incidence of unsatisfactory performance.

(Para 2A.8.2)

6.2 The Company in its written submission stated that it has set up a Project Screening Committee consisting of officials to screen the proposals to be placed before the Board and also interacting with the promoters who are associated with the project for implementation.

6.3 During his oral evidence the VC & MD deposed that the appraisal of the prospective entrepreneurs is on mutual consultation.

6.4 The Committee observed that inspite of the improvements in the disposal of appraisal reports there is no perceptible change in the standard of performance. As compared to 1988, the number of units which commenced production in 1991 had gone up from 352 to 389, the units which have become sick increased from 16.2 to 33.7 per cent, closed units from 15.1 to 19 per cent, while marginal units decreased from 46.9 to 26.5 per cent and the units which are functioning satisfactorily increased marginally from 21 to 22 per cent. The Committee further observed that the units which were classified as marginal in 1988 have become sick and were closed by 1991.

6.5 The General Manager (F) of the Company in his oral evidence stated that recoveries are classified into three categories (a) where dues are received as per the schedule (b) cases where dues are not received regularly (c) cases where loans are locked up and that as far as cases at (a) are concerned the Company is aware of the problems and regarding cases at (b) the units are inspected and loans rescheduled and additional loans are given to recover the amounts. The General Manager further submitted that the entrepreneurs are facing certain genuine problems like power shortage. Another major draw back with the units was that money was being diverted to build up current assets.

6.6 *The Committee cannot but come to the conclusion that the project appraisal is not done with all seriousness called for and the cavalier approach shown led to the present state of affairs. While the balanced growth of industry in different sectors suffered a set back on account of poor and incompetent handling of project appraisals, it only resulted in a good number of units becoming sick adding to the financial woes of the Company. The Committee, therefore, directs the Company that all agenda notes should be circulated to the Directors well in advance and steps should be taken to improve the quality of appraisal of the Project Reports to avoid the possibility of the units becoming sick due to defective*

project reports etc. The Committee further directs the Company to give adequate powers to the Project Screening Committee (PSC) and ensure the PSC holds its meetings regularly. The Committee desires that the clearance of appraisals is monitored effectively by the Company.

7. Monitoring

7.1 While the Company had been concentrating on the promotion of new projects, efforts were not made for monitoring the performance of units already assisted. Nominal staff was entrusted with the task of follow-up, monitoring, recovery of loans etc.

In order to systematize monitoring of projects and to intensify the efforts to recover the dues an 'operations department' was opened in June 1986. The functions of the department, inter-alia, were to analyse progress reports, inspect the units periodically, analyse balance sheets of the units and send the analysis reports to its nominee directors in the units.

Periodical reports from the nominee directors were not insisted upon except at the time of reschedulement of loans or sanction of additional term loans/equity or revival of units.

(Paragraph 2A.8.4)

7.2 *The Committee observed that the reply furnished by the Company in its explanatory notes did not cover the points raised in the Report. The Company is directed to give a direct reply to the points raised. Further, the Committee directs the Company to submit a report on the working of the 'operations department', detailing the number of progress reports analysed by the department, number of units inspected and the periodicity of such inspections, number of balance sheets of the units analysed and number of analysis reports furnished to the nominee directors in the units for taking proper and timely remedial measures by the units. The achievements of 'operations department' vis-a-vis the objectives with which it was formed may be reported to the Committee.*

8. Appointment of Nominee Directors

8.1 The Company is entitled to appoint its nominees on the boards of its Joint Ventures and assisted units in order to ensure their smooth and sound functioning.

(Paragraph 2A.8.7)

8.2 In its written statement the Company informed that against 988 nominee directors who could be nominated on the Boards of 536 units, only 455 nominee directors were nominated by the Company leaving 533 vacancies as on 31st March, 1991 representing 55 per cent.

8.3 In his oral evidence, while informing that a 'Nominee Directors cell' was created in Decmber, 1987, the VC and MD submitted that vacancies would be filled up within 2 months and that the Nominee Directors' cell was monitoring the receipt of nominee directors' reports and was also advising the nominee directors, wherever necessary.

8.4 The Committee is not convinced with the reply. The Committee observes that there is derelection of duty on the part of the Çompany in appointing the nominee Directors and regrets to note that eventhough the Company is having a good weapon in the form of nominee directors, it is not using the same for properly monitoring the assisted/Joint Venture units. Even after the Audit pointing out the large number of vacancies working out to 45 per cent in 1988, the Company has not given serious thought to the issue, inasmuch as the number of vacancies as on 31st March, 1991 rose to 55 per cent.

8.5 *The Committee directs the Company to fill up all the vacancies of nominee directors expeditiously and report back the progress to the Committee as promised by the Prl. Secretary.*

8.6 *The Committee further directs the Company to submit a report on the system of project implementation and operation, as recommended by the Committee in its Report of March, 1989.*

9. Inspection of Assisted Units

9.1 The Company was to conduct technical and financial inspection of promoted units during the period of implementation and post-production periods in order to ensure proper utilisation of financial assistance to ensure capacity utilisation as projected and to verify and evaluate the mortgaged assets.

Despite suggestion of IDBI and of its own Monitoring Committee, the Company neither draws programme to inspect all the promoted units atleast annually nor conducts inspections regularly.

The Company had no details as to the number inspections due and conducted. There was also no system to watch the receipt of Inspection Reports. There were instances where inspection was not conducted for 2 to 4 years.

(Paragraph 2A.8.8)

9.2 In his oral evidence, the VC and MD stated that 150 units were not inspected for more than 3 years as on 31st March 1988.

9.3 The Committee expresses its displeasure at the Company's failure to conduct adequate inspections of the assisted units. The Committee observed that inspite of Audit comment made in 1988 for carrying out adequate inspections of assisted units etc., the position has not improved, inasmuch as the Company inspected only 23 per cent of the units during the year and only 36 per cent of the units during the last three years.

9.4 *The Committee observed that while explaining the position of inspection of units as on 31st March, 1991 in its explanatory notes, the Company did not account for 166 units out of the total of 629 units. The Company may explain the status of inspection of the remaining 166 units as on 31st December, 1993.*

9.5 *The Committee is surprised to note that the Company has not inspected 321 of the total 629 units for more than one year, in the absence of which, the Committee is sure that the Company is not aware of the financial status of these 321 units.*

9.6. *The Committee directs the Company to evolve a system by which each unit is inspected atleast once in an year, inspection reports are submitted by the inspecting officers periodically and such reports are submitted to the Board, making review of the inspection reports as one of the items on the agenda of the Board. The Committee further directs the Company to develop a system for ascertaining the implementation of the projects and also production performance of its joint venture/ assisted units after their going into commercial production.*

10. Problematic units

10.1 In February, 1987 the Company identified 142 unit as problematic, based on the trend of repayment of loans and non-declaration of dividends. The causes for the unsatisfactory performance as identified by the Company were management problems in the areas of finance, technology and marketing and management deficiencies, mismanagement, improper and indifferent attitude of promoters to take timely steps etc. Had the pre-sanction appasals taken care of entrepreneur profiles and had the performance also been effectively monitored, the incidence of problematic units could have been minimised. The incidence of problematic units showed an increasing trend and stood at 271 of the end of February, 1988. (Paragraph 2A.8.9)

10.2 In its written reply, the Company stated that it had identified 162 units as problematic and that the Company was extending packages to some of these units along with other financial institutions.

10.3 *The Committee observes that there is a perceptible failure on the part of the Company preventing these units becoming problematic.*

The Committee desires that the Company may analyse the problems of these 162 units and take necessary action to help them in solving those problems, as also to safeguard the interests of the Company in respect of its investment in these units, particularly when SFC enjoys precedence over the Company. The Committee desires to have a detailed report on the action taken by the Company in respect of these 162 units.

11. Revival of sick units

11.1 24 Assisted Units of the Company whose investment was of the order of Rs. 12.59 crores were registered with BIFR and were directed by BIFR from time to time to submit proposals for their revival. BIFR approved revival proposals of 8 units, ordered liquidation of 6 units an rejected proposals of 2 units. The remaining 8 units were consideration (October, 1989). (Paragraph 2A.8.11)

11.2 In its explanatory notes, the Company stated that the latest position of the assisted units coming under the definition of sick units in the Sick Industrial Companies (Special Provisions) Act 1985 and referred to BIFR were 59 units, of which BIFR approved revival proposals of 27 units and ordered liquidation/winding up of 15 units and the proposals of 17 units were pending.

11.3 The Committee expresses its dismay over the 100 per cent increase in the number of sick units from 29 as on 31st March 1988 to 59 as on 31st March 1992. Inspite of the reported monitoring etc. done by the Company as explained by it in the previous paragraphs, the Company could not check the growth of the sick units. In other words, there is a failure on the part of its monitoring machinery.

11.4 *The Committee would like to have a report from the Government as to the reasons for these units going sick and on the monitoring failure in this regard precluding the Company to take advance action. The Committee recommends that the Company may take note of this aspect to initiate suitable measures to streamline its monitoring system.*

11.5 The Company may also furnish a report to the Committee on the progress made in the revival of the 27 units approved by BIFR for revival, the loss sustained by it in respect of the 15 units ordered to be liquidated by BIFR, as also the further developments in respect of 17 units which were under consideration of BIFR.

12. Recovery performance.

12.1 Under the refinance scheme, the Company is required to pay instalments and interest half yearly to IDBI and in turn it is expected to recover the amounts from the units. However, the actual recoveries during 1987-88 were only Rs. 5.05 crores and Rs. 6.95 crores towards princi-

pal and interest respectively as against Rs. 15.51 crores and Rs. 25.58 crores respectively recoverable from the units after reschedulement etc.,

The Company extends financial assistance by way of temporary demand loans, bridge loans against subsidies etc. The arrears (including interest) from units under operative and non-operative accounts as on 31 st March, 1989 were Rs. 3.65 crores (20 units) and Rs. 9.12 crores (51 units) respectively.

The consortium meetings of all financial institutions are intended to review the performance, identify areas of deficiencies and suggest remedial measures apart from granting concessions as part of revival programme. Though the consortium decisions were approved by the Board in each case, the Company had not been keeping the Board informed periodically about the financial impact. The information is also not disclosed either in the accounts or in the Directors' reports for information of shareholders. (Paragraph 2A.9.1 to 2A.9.4)

12.2 The Committee observed that the Company had not offered its remarks to many of the observations made by Audit in the paragraph.

12.3 The Company stated in its explanatory notes that recovery percentages of principal and interest during 1988-89 to 1990-91 ranged between 18 and 27 and 19 and 28 respectively.

12.4 The Committee, however, observed that the recovery position of both principal and interest is not very satisfactory and opines that the Company should make all out efforts to improve the recovery performance.

12.5 The General Manager (Finance) of the Company informed the Committee that it was having a monitoring division functioning for the last 3 to 4 years to closely watch and monitor the recovery performance. He further informed that a minimum of 2 consortium meetings for each unit are convened during a year and that 50 to 60 per cent of the units were facing working capital problems.

12.6 The Prl. Secretary (Industries) in his oral evidence stated that the Government has taken up the problem of working capital with Government of India. The Government of India has to take a policy decision on a nation-wide basis and if the nationalised banking policy is reoriented and if a prescribed percentage of lending is made to the industrial sector and if that is known at the beginning of the budget, both at the Centre and the States, the Government will be in a position to know the exact position.

12.7 The Committee observed that the Company could not furnish the number of consortium meetings held during the last 3 years to reivew

the performance of the units for their revival.

12.8 *The Committee recommends the following for consideration of Government/Company :*

(1) To draw-up an action plan regarding closure of units on account of lack of inability of the units.

(2) To seek prior approval of the Board of Directors in case of auction/ negotiations of closed units or sick units.

(3) To inform the Board of Directors/Share-holders of the outcome of the decision of the consortium meetings and their financial impact.

(4) To conduct meetings with Banks/Fianancial Institutions and sort out the problem of working capital of the units or in the alternative to come out with a proposal to mitigate the working capital problem of the units.

(5) To maintain shadow accounts to indicate the actual amounts due from the units, as the Company is accounting for recoveries on cash basis.

13. Return on investments

13.1 As at the end of 31st March, 1987 the Company promoted 325 units (5 subsidiaries, 63 joint venture and 257 assisted units) by subscribing to the equity to the extent of Rs. 57.88 crores both quoted and unquoted on the stock exchange. The Company did not make any attempt to analyse performance of investment portfolio with reference to the return projected in the appraisal nor did it study the incidence of investment without returns. The Company invested amount Rs. 1.07 crores in preference share capital in 36 sick and closed units. According to Section 80 of the Companies Act 1956, the preference shares cannot be redeemed except out of the profits of the company which would otherwise be available for dividend or out of the proceeds of fresh issue of shares made for the prupose of redemption. In view of the above, the Company would not be in a position to redeem its investment of Rs. 1.07 crores. (Paragraph 2 A.10.1 to 2A.10.3)

13.2 In its written reply, the Company stated that it brings pressure on the promoters to honour the buy back undertakings with a view to recycle the funds and that it is also making efforts to disinvest the preference shares wherever possible. The Company has at present stopped investing in preference shares taking into consideration the difficulty in redemption of preference shares. It was also stated that the investment in redeemable preference share capital as on 31st March, 1991 was Rs. 1.68 crores.

13.3 In his oral evidence the Prl. Secretary submitted that he has

notified for some dates for trading of the Shares of the units in the Hyderabad Stock Exchange.

13.4 *The Committee directs the Company to come out with an analysis report in respect of the Company's investment portfolio with reference to the projections made in the appraisals vis-a-vis actual performance. The Committee further directs the Company to evolve a suitable system which will enable the Company to dispose off the preference shares investment without any problem so that there will be a smooth recycling facility.*

14. Performance of disciplines and units - Woven Sack Units

14.1 The Company disbursed financial assistance of Rs. 0.05 crore in equity and Rs. 4.39 crores towards loans to eight units. Seven units went into production during May, 1986 to May, 1987 and none of the units could reach the level of rated capacity mainly due to the imposition of restriction by the Central Government on usage of High Density Poly Ethylene (HDPE). Sacks for packing in cement and fertilizer industries, compounded by the withdrawal of exemption from Central Excise Duty, power cuts and increase in cost of production. Though the Board of Directors of the Company decided (October, 1987) to withdraw assistance already sanctioned to the eighth unit because of the adverse market conditions, a term loan of Rs. 0.53 crore was released in December, 1987. While the eighth unit went into commercial production, the other 7 units became sick. The entire term loan of Rs. 4.59 crores was outstanding and the interest overdue as on 31st March, 1989 was Rs. 0.42 crore. (Paragraph 2A.11.1)

14.2 In its written statement the Company stated that HDPE Woven Sack industry in general has faced lot of problems during the years 1986-90, such as mandatory Jute Packing Act imposed by Government of India, 200 per cent LC margin for import of raw-materials, sluggish market off- take from user industries and increase in Dollar rates, that most of the units were performing well from 1990 onwards and also started repaying dues except by 2 units and that the Company is making all out efforts to revive the units and indigenous production of HDPE granules will start from December, 1992.

14.3 *The Committee desires to have a report detailing the amount due and overdue from these 8 units as on 31st December, 1993, along with the status of the units which are not doing well as also reasons therefor and action taken by the Company to remedy the situation. The Committee desires also to know the further progress made in indigenisation of HDPE granules by Reliance Petrochemcials and IPCL.*

14.4 *The Committee would also like to know the steps taken by the Government to remove the ill-effects and rejuvenate the sick industry.*

15. LPG Cylinders

15.1 The Company sanctioned financial assistance to two units in 1980 and to 3 units in 1983, to manufacture Liquified Petroleum Gas (LPG) Cylinders with an aggregate annual installed capacity of 4.45 lakh cylinders. The units went into commercial production between February, 1983 and August, 1986. The projects were promoted assuming that the demand for LPG cylinders would be 31 lakhs per annum on an average during 1983 -84 to 1987-88 as against the available production of 24 lakhs if all the units in the country go into production and the break even level of the five units was around 50 per cent capacity utilisation. All the units commenced production at a time when the LPG industry entered a critical phase on account of substantial capacity allowed to be created, compounded by the inability of oil companies, the sole buyers, to absorb such capacity and also entry of about 50 new units into the field pushing up the aggregate installed capacity to 1.2 crore cylinders as against the then existing demand of 50 lakh cylinders per annum. Consequently no unit could reach the break even of 50 per cent capacity utilisation as anticipated. The term loan outstanding (October, 1989) was Rs. 1.10 crores and interest was to the extent of Rs. 0.76 crore. Had the Company properly studied the available installed capacity and the market at the time of promotion of the units, this problem would not have arisen. (Paragraph 2A.11.2)

15.2 In his oral evidence, the VC and MD stated that a Committee of Government of India visited various LPG units, assessed their capacities in order to decide the size of order to be given to each unit and that further developments were awaited.

15.3 To a specific query, the VC and MD explained that there is no export potential as all other countries supply LPG through pipes and that a decision has been taken by the Company not to assist any more units of this type. He also opined that the Company had no other course but to reschedule the loans.

15.4 The Committee regrets to note that although the Company was aware in 1983 that Indian Oil Corporation had booked its requirements up to 1985 from the existing units and hardly any market was left for the new entrants and also that the units which were already in existence could not exceed 50 per cent of their installed capacities, the Company expected the break even level for the new units at 50 per cent of the capacities and went ahead with the approval of new units to enter the market.

15.5 The General Manager (F) in his oral evidence informed that the aggregate term loan was about Rs. 170 lakhs and that one unit was

closed while two were running for which some time had been given.

15.6 *The Committee directs the Company to examine the circumstances under which the Company sanctioned loans to these new units and fix responsibility for any wrong evaluation and recommendations. The Committee desires to have a compliance report from the Company, duly indicating the present status of these new units.*

16. Paper Industries

16.1 The Company promoted 21 paper and paper board industries in the State during 1977 to 1987, with an aggregate investment of Rs. 11.58 crores by way of equity and Rs. 5.71 crores by way of term loan. The capacity utilisation of most of the mini paper mills during 1984-85 and 1985-86 ranged from 6 to 60 per cent as against the break even of 55 to 65 per cent. Only two units declared dividend. The change of Management and additional financial assistance could not bring these units to normalcy.

The major factors leading to sickness were (1) promotion of units at a time when the existing units were unable to reach 60 per cent of capacity utilisation as against 53 per cent break even and static demand, (2) uneconomic size of capacity, (3) import of 70 year old second hand machinery, (4) cost over run, (5) non-availability of raw-material, (6) inefficient management and lack of proper appraisal and monitoring.

(Paragraph 2A.11.5)

16.2 The General Manager (F) of the Company during his oral evidence submitted that the major problem faced by the industry was non- availability of raw-material and that four or five units were closed long back. He further submitted that all the plants which are running are repaying the dues according to schedule.

16.3 *The Committee regrets to note that no proper appraisals of the units were carried out by the Company although it was aware of the fact that the then existing units could not reach even 60 per cent capacity as against 53 per cent, static demand and shortage of raw-materials.*

16.4 *The Committee directs the Company to have a critical and comprehensive appraisal of the proposals submitted by any unit before approving assistance to them. The Committee also directs the Company to submit the current status report on the paper industry promised by the VC & MD during his oral evidence.*

17. Drugs and Pharmaceuticals Units :

17.1 The Company extended financial assistance to 16 units during 1976-86 for manufacture of basic drugs. The total assistance in these

units stood at Rs. 1.07 crores equity, Rs. 7.99 crores term loans and Rs. 1.32 crores as Seed Capital. Of these, 11 units were set up by first generation entrepreneurs. While 3 units were working well, the performance of 11 units was not satisfactory (Performance of 2 other units was not assessed). Poor performance was attributed to :

- creation of excess capacity by the State level financial institutions,
- inefficient management,
- financial and marketing problems,
- non-availability of raw material and
- fall in prices.

The first four could have been foreseen/avoided at the pre-sanction stage.

The capacity utilisation ranged from 9 to 75 per cent and the operations of 7 units ended up with negative net worth of Rs. 3.93 crores. The total amount of instalments defaulted (Rs. 1.83 crores in 8 cases) and interests overdue (Rs. 0.96 crore in 3 cases) was rescheduled and funded. The Company waived penal interest of Rs. 0.18 crore in 2 cases. In one case the instalments of Rs. 0.24 crore from March 1987 and interest of Rs. 0.24 crore from May 1987 were overdue (October 1989). (Paragraph 2A.11.6)

17.2 The Company stated: "Out of 16 units, 2 units are sold out, 2 units are looking for change of Management, one unit is under liquidation, 7 units performance is satisfactory, they are meeting commitments to the institutions. For the remaining units, package deal was extended for their revival and their performance would become satisfactory by the end of 1992-93".

17.3 *The Committee desires to have a report from the Company explaining the exact number of units so far assisted under this category, whether there was any loss on disposal of the 2 units, whether any dividend was received from the 7 units which were working well and whether the 6 units which were not doing well had improved their performance by March 1993, as was hoped by the Company.*

18. Straw Board Units :

18.1 The Company promoted nine units including two joint ventures for the manufacture of straw boards by extending financial assistance of Rs. 0.57 crore towards equity and Rs. 2.64 crores as term loan under IDBI refinance scheme.

IDBI advised (1981) the state level financial institutions to go slow

on Straw Board units as the viability of these units was doubted in several quarters. The Company and APSFC conducted market surveys departmentally (December 1982) and sanctions to six of these units was staggered in order to get the IDBI refinance and still created a capacity of 4750 TPA in excess of demand.

Of the nine units promoted, three units were working satisfactorily. Of the balance six units, the accumulated loss in five units was Rs. 0.75 crore. These units could not penetrate into the market due to –

- promotion of units at a time,
- market demand not increased as anticipated,
- competition from small and tiny straw board units in the neighbouring states and
- problems of financial management and working capital margin.

Even after reschedulement of Rs. 0.99 crore in six cases and funding of interest of Rs. 0.28 crore in two cases (August 1988) three units defaulted in paying loan instalments of Rs. 0.58 crore and interest of Rs. 0.44 crore as on 31st October 1989. The Management stated (June 1988) that the Company was not equipped to conduct market survey. In the absence of proper machinery to carry out survey, the so called survey conducted by the Company (December 1982) was obviously inadequate and ineffective and, thus, conclusions drawn thereon were unreliable and loans were sanctioned on such unreliable conclusions.

As mentioned earlier despite repeated observations by IDBI, the Company was yet to take concrete steps to strengthen and equip its market research activity (February 1989). (Paragraph 2A.11.7)

18.2 The Company submitted in its explanatory notes that no new projects have been promoted in this line subsequent to the submission of the Audit Report.

18.3 *The Committee regrets to note that out of 9 units, 6 units became sick with accumulated losses aggregating Rs. 0.75 crore. Audit pointed out that the units were promoted at a time, inadequate demand for the products, stiff competition from other units, bad financial management were the reasons for the units going into sickness. IDBI also advised the Company to go slow in investing in straw board units, as the viability of these units was doubted in several quarters. Despite all these known factors, the Company promoted 9 units, out of which only 3 could survive. Ultimately, the installed capacity was more by 4750 TPA than demand. It is a clear case of inadequate and improper appraisal before sanctioning financial assistance.*

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18.4 The Management admitted that the Company was not equipped to conduct market survey. It only tells upon the inefficient functioning of the Company were the information system is inadequate and ineffective.

18.5 *The Committee is amazed to learn that loan was sanctioned without proper market survey. The Committee strongly recommends that it should strengthen its marketing survey system without further loss of time, so that it can have its own assessment of the demand for the products, instead of depending upon other agencies/financial institutions for this purpose. The Committee also desires to have a status report in respect of these 9 assisted units.*

19. Sangam Fabrics, Kothur :

19.1 The Unit, promoted by a technocrat, was disbursed Rs. 0.10 crore towards equity share capital, Rs. 0.60 crore as term loan under IDBI Refinance Scheme and Rs. 0.12 crore by way of seed capital. During implementation, the Company agreed to the proposed expansion and consequently cost was revised (additional cost was met from the loans obtained from APSFC etc.) from Rs. 0.93 crore to Rs. 1.49 crores. While nominating the directors on the Board of the unit, the Company and APSFC did not adhere to the criteria in existence. These nominee directors had an indirect interest in the unit. The unit procured the required plant and machinery valued Rs. 0.71 crore from a firm in which one of the nominee directors of the financial institutions was a partner.

The following points were also noticed:

(a) The unit went into production in November 1982 after a delay of one year and the capacity utilisation was only 14 per cent up to June 1983 instead of the anticipated 66.7 per cent mainly due to its inability to penetrate into market.

(b) Since inception there were dissensions among partner - directors. Without the approval of the financial institutions, the Board of the unit appointed a Finance Manager and inducted a whole time technical director when the Managing Director, who himeself was a technocrat - promoter, was absent (June 1983) which caused dissensions among directors.

(c) Detailed appraisal comparing with the existing units, though suggested by the finance wing of the Company at the time of appraisal, was not conducted.

These led to the closure of the unit in January 1984 and the cumulative loss at the end of September 1984 was Rs. 1 crore.

The report (February 1985) of the consultants appointed by the Consortium to suggest measures for improvement revealed that–

- the boiler plant installed was not sufficient to achieve full capacity,
- the machinery required complete overhaul and
- some machinery was wrongly conceived.

(d) APSFC seized (July 1986) the unit as per consortium decision of June 1986 and sold it for Rs. 0.65 crore, of which Rs. 0.07 crore should be down payment and the Company's share of Rs. 0.35 crore be paid in 15 half- yearly instalments with a moratorium of one and half years. The Company has to recover the balance amount or Rs. 1.19 crores including interest of Rs. 0.96 crore as on 31st May 1989. (Paragraph 2A.11.8)

19.2 In its explanatory notes, the Company stated: "APSFC sold the units of M/s. Sangam Fabrics Ltd. (SFL) under Section 29 of SFCs Act to M/s. Jayaprakash Tibrewala Traders who changed subsequently as M/s. Siddivinayaka Synthetics Ltd. to take over the assets of M/s. SFL for a total consideration of Rs. 65.10 lakhs during March 1988. As per the terms of sale, the Company paid Rs. 7 lakhs as down payment to APSFC and the balance of Rs. 58.31 lakhs was treated as term loan from the participating institutions viz., APIDC, APSFC and Andhra Bank. As per the sale consideration, APIDCs share of term loan amounted to Rs. 35.04 lakhs as against Rs. 60.00 lakhs. Besides this, APIDC also invested in the equity share capital of the unit to an extent of Rs. 10.40 lakhs.

As per the norms of the consortia finance, SFC as lead institution has to collect the balance sale consideration and arrange payments to participating institutions as stated above since M/s. SVSL had created equitable mortgage of land and hypothecation of plant and machinery for Rs. 58.31 lakhs i.e. total loan to be repaid by the Company to the institutions in favour of APSFC only. It is also stated that the charge is created only in favour of SFC and other term lending institutions had no charge in their favour for the amounts due to them. It is also mentioned that APSFC also agreed for creation of joint mortgage on behalf of the other institutions too on the assets of the Company for the balance amounts to be paid.

In the light of the above, APIDC should pursue with APSFC since it had neither received its share of amounts to be remitted by SFC out of the sale consideration collected from the captioned company towards the dues, nor heard anything on the latest developments on the seizure of the captioned units under Section 29 of SFCs Act".

19.3 The Committee noticed that the Company did not offer its explanations to the observations made in the para on the events that happened before the unit became sick and was seized by SFC, but only

mentioned the position after the seizure of the unit by SFC.

19.4 *The Committee regrets to note that this is yet another instance of improper and inadequate pre-sanction appraisal conducted by the Company. The Company nominated directors who had indirect interest in the unit. The technocrat who was the promoter has abandoned the project and a new technical director was appointed as Managing Director, which caused dissentions among Directors. Prior to sanction of the loan, the detailed appraisal furnished by the unit was not compared with the then existing units suggested by its Finance Wing. The unit ultimately became sick and was disposed off by SFC. The Committee recommends that the Company may enquire into the circumstances leading to the unit becoming sick and fix responsibility.*

19.5 *The Company was to recover Rs. 35 lakhs from the purchaser in 15 half yearly instalments. In addition, the Company has to recover Rs. 1.19 crores from the original promoter. In the light of the reply given in the last para, the Committee feels that there is no scope of recovery from the original promoter. The Committee desires to have a report on the present status of recovery of its dues from both the new and old entrepreneurs.*

20. A.P. Industrial Gases Limited :

20.1 The Company promoted A.P. Industrial Gases Limited as a joint venture in 1974 for manufacture of oxygen and acetylene with an agriculturist. The project cost of Rs. 81 lakhs was to be financed by the financial institutions and the co-promoter and about 70 per cent of the oxygen was to be supplied to A.P. Steels Limited (APSL) and the balance to be sold in the open market. Without insisting upon the unit to enter into an agreement binding APSL to take 70 per cent of the production, the Company prevailed upon APSFC to release funds and accordingly the loan of Rs. 0.30 crore was released by APSFC during the period from November 1977 to August 1987 by which time the Company did not make any investment.

APSL informed the Company in 1979 that the cost of the product, as projected in the project appraisal itself, was on high side and oxygen lancing was not economical. Although APSL assessed (March 1978) its requirement at only 20 per cent of installed capacity of the unit and despite the fact that the Company was also aware by January 1979 that the unit would face marketing problems, the Company invested Rs. 0.10 crore. Similarly the local sales during the years 1979 to 1986 ranged between 0.93 and 35.7 per cent as against 30 per cent anticipated. The unit has been incurring losses since inception due to lack of demand, underutilisation of capacities and high cost of production and the cumulative loss till 1985 was Rs. 0.47 crore.

Despite the problems faced by the unit, one more manufacturing unit of IG Limited was set up at Visakhapatnam instead of opening a sales department. This unit received Rs. 0.47 crore from the Company as loan assistance and went into production during April 1987. As per the opinion (November 1987) of the financial institutions, the unit was not viable without a firm commitment from APSL.

The unit was not regular in repayment and the defaulted amount of instalments - Rs. 0.08 crore was rescheduled (May 1987) and interest of Rs. 0.04 crore funded. - As on 31st October 1989, Rs. 0.15 crore and Rs. 0.30 crore towards loan and interest were due. (Paragraph 2A.11.9)

20.2 In its written notes, the Company stated that the unit was running in losses and the main reason was that the unit depended on orders of APSL which itself was a sick company. The Company also informed that outstanding loan and interest there as on 31st March 1992 were Rs. 92.38 lakhs and Rs. 61.31 lakhs respectively.

20.3 *The Committee observed that lack of examination of economics of lancing operations, lack of proper assessment of market conditions in and around Hyderabad, Vijayawada and Visakhapatnam and lack of expertise and financial resources of the promoter who was an agriculturist were also the contributing factors for the present situation. The Committee desires to have a status report on the case covering the above aspects.*

21. Golconda Abrasives :

21.1 The Company promoted a joint venture - Golconda Abrasives Limited - to manufacture vitrified and resin bonded grinding wheels in technical collaboration with a French firm. The consultants opined in December 1980 that the unit would have to challenge the two giant companies as numerous small scale entrepreneurs in the field failed to compete with these two monopolists. As the demand gap of 1500 tons per annum existed, the unit was established as a medium scale unit with a capacity of 1000 TPA at a cost of Rs. 2.16 crores. The Company released Rs. 0. 18 crore as equity and Rs. 0.60 crore as term loans. The unit commenced production in September 1983 after a delay of 15 months, mainly due to delay in financial tie-up with financial institutions.

The unit stated in November 1985 that it was not able to take any steps for establishing market as either the unit or the financial institutions were unaware of the actual market conditions. It was also not able to face stiff competition from the gaint multinational companies and finally the unit was closed in July 1987. IDBI opined in November 1987 that the unit could not be made viable. The total outstanding as on 31st October 1989 stood at Rs. 1.24 crores including interest. (Paragraph 2A.11.13)

21.2 The Committee observed that poor marketability and the inability

of various units to cope with the competition from two gaint companies was known to the Company even before sanctioning the loan. The Company did not explain how and why financial assistance was given to the unit even though the Company was aware of these shortcomings.

21.3 *The Committee desires to have a report from the Company explaining the circumstances under which the loan was sanctioned despite knowing the adverse factors and directs the Company to fix responsibility for the lapse. The Committee may be appraised of the action taken by the Company to recover the dues from the unit.*

22. Business Machine Limited :

22.1 The Chairman of Royala Corporation Limited, which gave technical know-how to Business Machine Limited (B) is the co-promoter of B Ltd. The unit availed Rs. 0.42 crore of term loan as against sanction of Rs. 0.56 crore and implemented the project to the extent of 6000 typewriters as against the envisaged licensed capacity of 12000 typewriters per annum. The plant and machinery of 'R' earlier taken on hire was purchased by 'B', out of the term loan sanctioned by the Company and started functioning from 1983, duly turning out typewriters by mainly assembling and earned a modest profit of Rs. 0.02 crore since inception during 1982-83. Since January 1985 the Company was facing problems with regard to component supplies from 'R' and thus ultimately had to be closed in May 1986. The Company had to pay instalments together with interest amounting to Rs. 0.42 crore as on 31st May 1988. The Company considered disinvestment in October 1986 but it could not be pursued with the co- promoter who was not responsive. The intention of 'R' in promoting 'B' is clear - to dispose off its old plant and machinery. Having achieved this objective and having got the unit 'B' closed, 'R' was not responsive either for repayment of the loan or for purchasing the shares from the Company. Had the Company exercised necessary pre and post-disbursement monitoring, this situation could have been avoided. The Company had not, so far, verified and valued the machinery so purchased from 'R'.

(Paragraph 2A.11.15)

22.2 In its explanatory note submitted to the Committee, the Company stated that two creditors of the unit filed suits in A.P. High Court and consequently winding up orders were passed.

22.3 *The Committee observed that lack of adequate pre-project appraisal by the Company, particularly in respect of evaluation of the plant and machinery proposed to be purchased by the unit, led to the unit becoming sick. The Committee, therefore, recommends that the Company may enquire into the case and fix responsibility for the loss sustained by the Company.*

22.4 *The Committee further desires to have a detailed report on the present status of disposal of the assets and of recovery of the dues from the unit.*

3. General :

23.1 The Committee observed that the Company has not offered its explanations either partly or fully in respect of the Audit observations made in the following paragraphs:

Reference to Paragraph No.	Subject.	Reference to page (s) in Audit Report
1. 2A.5	Scope of operations	53-56
2. 2A.6.1	Funding	56-60
3. 2A.7.5.	(Corporate Plan)	71
4. 2A.8.7	(Pre-sanction appraisals and performance monitoring)	78-81
5. 2A.8.10	-do-	83-86
6. 2A.9.1. to 2A.9.4.	(Recovery performance)	86-91
7. 2A.11.17	Norne Tulaman	119-120
8. 2A.14.1	Commitment charges	123
9. 2A.14.2	Delay in disbursement of Central subsidy	124

23.2 *The Committee desires to know the circumstances under which explanation was not given by the Company to the observations made by Audit in the above paragraphs and further directs the Company to submit its explanatory notes in respect of these paragraphs before 30th June 1994.*

23.3 *The Committee also directs the Company to ensure that such omissions do not occur in future.*

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH 1990

24. Unfruitful investment in M/s. Vermell Chemicals Private Limited:

24.1 The proposal of Vermell Chemicals Private Limited for setting up a project of 7500 TPA of Sodium Sulphate and 12000 TPA of Hydrochloric

Acid was cleared by the Company in October 1985. The project was first of its kind in the country. Due to delay in getting clearance from Visakhapatnam Urban Development authority and due to changes in plant and machinery requirements, the implementation of the project was delayed by 12 to 15 months. Several technical deficiencies like improper designing of the paddle mixer-cum-granulator were observed during trial runs and the plant could not be run continuously. The abnormal delay in implementing the project resulted in a time overrun of 26 months and escalation in cost by Rs. 45.96 lakhs. The plant was finally commissioned in March 1988 but commercial production could not commence due to technical defects. The plant was stopped completely in December 1988 and has not been revived so far (April 1991).

The nominee director reported in January 1989 that the promoters did not have financial and technical back up to complete the project. The Managing Director of the unit reported in February 1990 that the technology was defective, that the consultants were not able to help and that the expensive machinery had started rusting. Thus, the investment of Rs. 3.90 lakhs in equity remained unfruitful, besides non-recovery of term loan of Rs. 70.07 lakhs and loss of interest of Rs. 33.79 lakhs to the end of March 1990.

The Management stated in November 1990 that the project failed due to various deficiencies in the technology which came to light during implementation on commercial scale and that the Company was exploring the possibility of reviving the unit by diversification. (Paragraph 3A.1.1)

24.2 In its explanatory notes, the Company stated: "The promoters in association with their consultants M/s Tirumala Technical Consultants Limited set up a small plant unit to demonstrate the technology. The Company took the opinion of two experts - Dr. P.S.Murthy and Shri Y.V.S.S. Murthy on the performance of the pilot unit. The experts witnessed one trial run and gave positive opinion of the possibility of scaling of the pilot unit to commercial size.... The project and the entrepreneurs having been cleared under the seed capital assistance scheme itself, it was clear that the technology could be tried and the project could be financed. However, owing to various deficiencies in the technology which came to light during implementation on commercial scale, the project failed....".

24.3 The Committee observed that the Company financed the project mainly on the support of the positive opinion of the possibility of scaling of the pilot plant to commercial size, given by the experts and as was admitted by the Company, the pilot unit could not be scaled to commercial size mainly due to various deficiencies in the technology noticed at the time of implementation of the project. This clearly indicates that the

two experts had not properly studied the pilot unit and had not properly examined the feasibility of its being developed into commercial scale before giving their opinion. This lapse on the part of these two experts is amply proved by the fact that the technology suffered ab-initio from various deficiencies which was the main reason for the failure of the project. The Committee wonders to what extent one can rely upon expert advices, if the experts give their advices without properly examining the technology in all aspects.

24.4 *The Committee, therefore, directs the Company to take up the matter with IDBI (it was mentioned by the Company that these experts were selected by IDBI) for fixing responsibility for the loss suffered by the Company.*

24.5 In his oral evidence before the Committee, the Vice Chairman and Managing Director informed that notice under Section 29 of SFC Act was issued and that the Company was taking action to sell the Unit.

24.6 *The Committee desires to be appraised of the latest status of revival of the unit by diversification and of the recovery of dues.*

24.7 *The Committee is of the opinion that the Company did not evaluate the technology adopted and its reliability at the time of project appraisal. The Committee directs the Company to furnish a detailed report on the approval of technology at the project appraisal stage and how the defective technology could not be detected.*

25. Avoidable payment of surcharge of low power factor

25.1 The Company was availing power supply under High Tension (HT) category II of power tariffs for its office buildings. As per the tariff conditions low power factor surcharge was leviable if power factor of the consumers' installation falls below 0.85. Because of defective capacitors the Company paid Rs. 3.95 lakhs as surcharge between February 1987 and April 1990. (Paragraph 3A.1.6)

25.2 In its written statement, the Company stated that the 75 KVA capacitors installed initially did not control the power factor and hence additional 50 KVA capacitors were installed and that there was some delay in procurement of these capacitors, during which time, surcharge as claimed by the electricity board had tobe paid.

25.3 *The Committee directs the Company to fix responsibility for the procurement of defective capacitors/capacitors of inadequate capacity and make good the loss sustained by the Company.*

SUMMARY OF RECOMMENDATIONS

1. The Committee recommends the following for consideration of the Company/Government:

a. The Company may examine alteration of the Articles of Association for increasing the minimum number of Directors to at least 5.

b. The Government and other participating organisations may nominate the Directors by designation in ex-officio capacity and avoid appointing them by name, so that the availability of nominee directors is continous.

c. The Government should ensure that there is no time gap between a Director's post falling vacant and nomination of a substitute there against, so that the Board's existence is continuous without any break and there will be no occasion for its reconstitution. The Government should also ensure that the post of Chairman is not kept vacant for long and the appointment is made without much loss of time.

d. The Public Enterprises Management Board (PEMB) may immediately undertake a review of the position of vacancies of Chairman/Directors prevailing in all the Companies/Corporations falling under its purview and suggest suitable steps to Government to enable it to take immediate action whereever there are vacancies. PEMB may also fix up a time frame within which all the Companies would have their Boards with full strength of Directors prescribed by the respective Articles of Association.

e. PEMB and the concerned Administrative Department shall also induct experts in various fields, as prescribed in the Articles of Association, as Directors on the Boards, with a view to sharing the expert opinion and technical guidance of such Directors in the concerned field of activity.

f. The Committee is of the opinion that a close watch on the performance of various nominee Directors on the Boards is called for. PEMB may, therefore, prescribe suitable reports to be furnished by the nominee directors to serve as a feed back on the functioning of the Company to initiate corrective steps wherever necessary.

(Paragraph 2.5)

2. The Committee observed that the Company was forced to go in for borrowings from banks etc. mainly due to the meagre support from the Government. The Committee, therefore, recommends that

the Government should, in future, allot and release without fail at least the earmarked funds to the Company. The Committee also directs the Company to improve its recovery performance and also to step up its disinvestment activity, in order to raise adequate internal resources for implementation of its various schemes.

(Paragraph 3.4)

3. The Committee likes to have a report from the Company/Government explaining the circumstances under which the report could not be obtained from the Sub-Committee within the stipulated period.

(Paragraph 4.5)

4. The Committee further recommends that the Company may reconstitute the Sub-Committee immediately, duly fixing a target date for the submission of its report and implement the recommendations soon after the receipt of the report.

(Paragraph 4.6)

5. The Committee recommends that all matters submitted to the Government should have the prior approval of the Board of the Company. This will ensure the total involvement of the Board in the affairs of the Company.

(Paragrapah 5.3)

6. The Committee desires to have the details of the units which have more than Rs. 20 lakhs investment as on 31st December 1993 and the amounts of dividends declared by them.

(Paragraph 5.4)

7. The Committee cannot but come to the conclusion that the project appraisal is not done with all seriousness called for and the cavalier approach shown led to the present state of affairs. While the balanced growth of industry in different sectors suffered a set back on account of poor and incompetent handling of project appraisals, it only resulted in a good number of units becoming sick adding to the financial woes of the Company. The Committee, therefore, direts the Company that all agenda notes should be circulated to the Directors well in advance and steps should be taken to improve the quality of appraisal of the Project Reports to avoid the possibility of the units becoming sick due to defective project reports etc. The Committee further directs the Company to give adequate powers to the Project Screening Committee (PSC) and ensure that PSC holds its meetings regularly. The Committee desires that the clearance of appraisals is monitored effectively by the Company.

(Paragraph 6.6)

8. The Committee observed that the reply furnished by the Company

in its explanatory notes did not cover the points raised in the Report. The Company is directed to give a direct reply to the points raised. Further, the Committee directs the Company to submit a report on the working of the operations department, detailing the number of progress reports analysed by the department, number of units inspeted and the periodicity of such inspections, number of balance sheets of the units analysed and number of analysis reports furnished to the nominee directors in the units for taking proper and timely remedial measures by the units. The achievements of operations department vis-a-vis the objectives with which it was formed may be reported to the Committee.

(Paragraph 7.2)

9. The Committee directs the Company to fill up all the vacancies of nominee directors expeditiously and report back the progress to the Committee as promised by the Prl. Secretary.

(Paragraph 8.5)

10. The Committee further directs the Company to submit a report on the system of project implementation and operations, as recommended by the Committee in its Report of March, 1989.

(Paragraph 8.6)

11. The Committee observed that while explaining the position of inspection of units as on 31st March 1991 in its explanatory notes, the Company did not account for 166 units out of the total of 629 units. The Company may explain the status of insepction of the remaining 166 units as on 31st December 1993.

(Paragraph 9.4)

12. The Committee is surprised to note that the Company has not inspected 321 of the total 629 units for more than one year, in the absence of which, the Committee is sure that the Company is not aware of the financial status of these 321 units.

(Paragraph 9.5)

13. The Committee directs the Company to evolve a system by which each unit is inspected at least once in an year, inspection reports are submitted by the inspection officers periodically and such reports are submitted to the Board, making review of the inspection reports as one of the items on the agenda of the Board. The Committee further directs the Company to develop a system for ascertaining the implementation of the projects and also production performance of its joint venture/assisted units after their going into commercial production.

(Paragraph 9. 6)

14. The Committee observes that there is a perceptible failure on the part of the Company preventing these units becoming problematic.

The Committee desires that the Co...pany may analyse the problems of these 162 units and take necessary action to help them in solving those problems, as also to safeguard the interests of the Company in respect of its invesment in these units, particularly when SFC enjoys precedence over the Company. The Committee desires to have a detailed report on the action taken by the Company in respect of these 162 units.

(Paragraph 10.3)

15. The Committee would like to have a report from the Government as to the reasons for these units going sick and on the monitoring failure in this regard precluding the Company to take advance action. The Committee recommends that the Company may take note of this aspect to initiate suitable measures to streamline its monitoring system.

(Paragraph 11.4)

16. The Company may also furnish a report to the Committee on the progress made in the revival of the 27 units approved by BIFR for revival, the loss sustained by it in respect of the 15 units ordered to be liquidated by BIFR, as also the further developments in respect of 17 units which were under consideration of BIFR.

(Paragraph 11.5)

17. The Committee recommends the following for consideration of Government/Company:

(1) To draw-up an action plan regarding closure of units on account of lack of inability of the units

(2) To seek prior approval of the Board of Directors in cases of auction/ negotiations of closed units of sick units.

(3) To inform the Board of Directors/share holders of the outcome of the decision of the consortium meetings and their financial impact.

(4) To conduct meetings with Banks/financial institutions and short out the problem of working capital of the units or in the alternative to come out with a proposal to mitigate the working capital problem of the units.

(5) To maintain shadow accounts to indicate the actual amounts due from the units as theCompany is accounting for recoveries on cash basis.

(Paragraph 12.8)

18. The Committee directs the Company to come out with an analysis report in respect of the Company's investment portfolio with reference to the projections made in the appraisals vis-a-vis actual performance. The Committee further directs the Company to evolve a suitable system

which will enable the Company to dispose off the preference shares investment without any problem so that there will eb a smooth recycling facility.

(Paragraph 13.4)

19. The Committee desires to have a report detailing the amount due and overdue from these 8 units as on 31st December 1993, along with the status of the units which are not doing well as also reasons therefor and action taken by the Company to remedy the situation. The Committee desires also to know the further progress made in indigenisation of HDPE granules by Reliance Petrochemcials and IPCL.

(Paragraph 14.3)

20. The Committee would also like to know the steps taken by the Government to remove the ill-effects and rejuvenate the sick industry.

(Paragraph 14.4)

21. The Committee directs the Company to examine the circumstances under which the Company sanctioned loans to thsese new units and fix responsibility for any wrong evaluation and recommendations. The Committee desires to have compliance report from the Company, duly indicating the present status of these new units.

(Paragraph 15.6)

22. The Committee regrets to note that no proper appraisals of the units were carried out by the Company although it was aware of the fact that the then existing units could not reach even 60 per cent capacity as against 53 per cent, static demand and shortage of raw materials.

(Paragraph 16.3)

23. The Committee directs the Company to have a critical and comprehensive appraisal of the proposals submitted by any unit before approving assistance to them. The Committee also directs the Company to submit the current status report on the paper industry promised by the VC & MD during his oral evidence.

(Paragraph 16.4)

24. The Committee desires to have a report from the Company explaining the exact number of units so far assisted under this category, whether there was any loss on disposal of the 2 units, whether any dividend was received from the 7 units which were working well and whether the 6 units which were not doing well had improved their performance by March 1993, as was hoped by the Company.

(Paragraph 17.3)

25. The Committee regrets to note that out of 9 units, 6 units became sick with accumulated losses aggregating Rs. 0.75 crore. Audit pointed out that the units were promoted at a time, inadequate demand for the

products, stiff competition from other units, bad financial management were the reasons for the units going into sickness. IDBI also advised the Company to go slow in investing in straw both the units, as the viability of these units was doubted in several quarters. Despite all these known factors, the Company promoted 9 units, out of which only 3 could survive. Ultimately, the installed capacity was more by 4750 TPA than demand. it is a clear case of inadequate and improper appraisal before sanctioning financial assistance.

(Paragrapah 18.3)

26. The Committee is amazed to learn that loan was sanctioned without proper market survey. The Committee strongly recommends that it should strengthen its marketing survey system without further loss of time, so that it can have its own assessment of the demand for the products, instead of depending upon other agencies/financial institutions for this purpose. The Committee also desires to have a status report in respect of these 9 assisted units.

(Paragraph 18.5)

27. The Committee regrets to note that this is yet another instance of improper and inadequate pre-sanction appraisal conducted by the Company. The Company nominated directors who had indirect interest in the unit. The technocrat who was the promoter has abandoned the project and a new technical director was appointed as Managing Director, which caused dissentions among Directors. Prior to sanction of the loan, the detailed appraisal furnished by the unit was not compared with the then existing units suggested by its Finance Wing. The unit ultimately became sick and was disposed off by SFC. The Committee recommends that the Company may enquire into the circumstances leading to the unit becoming sick and fix responsibility.

(Paragraph 19.4)

28. The Company was to recover Rs. 35 lakhs from the purchaser in 15 half yearly instalments. In addition, the Company has to recover Rs. 1.19 crores from the original promoter. In the light of the reply given in the last para, the Committee feels that there is no scope of recovery from the original promoter. The Committee desires to have a report on the present status of recovery of its dues from both the new and old entrepreneurs.

(Paragraph 19.5)

29. The Committee observed that lack of examination of economics of lancing operations, lack of proper assessment of market conditions in and around Hyderabad, Vijayawada and Visakhapatnam and lack of expertise and financial resources of the promoter who was an agriculturist were also the contributing factors for the present situation. The

committeed desires to have a staus report on the case covering the above aspects.

(Paragraph 20.3)

30. The Committee desires to have a report from the Company explaining the circumstances under which the loan was sacntioned despite knowing the adverse factors and directs the Company to fix responsibility for the lapse. The Committee may be appraised of the action taken by the Company to recover the dues from the unit.

(Paragraph 21.3)

31. The Committee observed that lack of adequate pre-project appraisal by the Company, particularly in respect of evaluation of the plant and machinery proposed to be purchased by the unit, led to the unit becoming sick. The Committee, therefore, recommends that the Company may enquire into the case and fix responsibility for the loss sustained by the Company.

(Paragraph 22.3)

32. The Committee further desires to have a detailed report on the present status of disposal of the assets and of recovery of the dues from the unit.

(Paragraph 22.4)

33. The Committee desires to know the circumstances under which explanation was not given by the Company to the observations made by Audit in the above paragraphs and further directs the Company to submit its explanatory notes in respect of these paragraphs before 30th June 1994.

(Paragrapah 23.2)

34. The Committee also directs the Company to ensure that such omissions do not occur in future.

(Paragraph 23.3)

35. The Committee, therefore, directs the Company to take up the matter with IDBI (it was mentioned by the Company that these experts were selected by IDBI) for fixing responsibility for the loss suffered by the Company

(Paragraph 24.4)

36. The Committee desires to be appraised of the latest status of revival of the unit by diversification and of the recovery of dues.

(Paragraph 24.6)

37. The Committee is of the opinion that the Company did not evaluate the technology adopted and its reliability at the time of project appraisal. The Committee directs the Company to furnish a detailed

report on the approval of technology at the project appraisal stage and how the defective technology could not be detected.

(Paragraph 24.7)

38. The Committee directs the Company to fix responsibility for the procurement of defective capacitors/capacitors of inadequate capacity and make good the loss sustained by the Company.

(Paragraph 25.3)

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